

**frontier**

Michael J. Shortley, III  
Senior Attorney and Director  
Regulatory Services

180 South Clinton Avenue  
Rochester, NY 14646  
716-777-1028  
716-546-7823 fax  
716-777-6105

mshortle@frontiercorp.com

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**BY OVERNIGHT MAIL**

Mr. William F. Caton  
Office of the Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

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**Re: IB Docket No. 97-142**

Dear Mr. Caton:

Enclosed for filing please find an original plus nine (9) copies of the Comments of Frontier Corporation in the above-docketed proceeding.

To acknowledge receipt, please affix an appropriate notation to the copy of this letter provided herewith for that purpose and return same to the undersigned in the enclosed, self-addressed envelope.

Very truly yours,

*Michael J. Shortley, III*

Michael J. Shortley, III

cc: International Transcription Service

Mr. Douglas A. Klein, International  
Bureau

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JUL 10 1997  
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**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

**In the Matter of**

**Rules and Policies on Foreign  
Participation in the U.S.  
Telecommunications Market**

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**IB Docket No. 97-142**

**COMMENTS OF  
FRONTIER CORPORATION**

Frontier Corporation ("Frontier") submits these comments in response to the Commission's Notice initiating this proceeding.<sup>1</sup> The World Trade Organization ("WTO") Basic Telecom Agreement ("Agreement") has fundamentally altered the ground rules under which this Commission has traditionally regulated international common carriage. The Agreement commits the United States and 68 other countries to open their markets for basic telecommunications services.<sup>2</sup> In general, Frontier agrees with the proposals contained in the Notice, provided that the Commission retains the ability to condition foreign carrier authorizations for carriers from countries that do not follow through on their liberalization commitments.

The Commission addresses a wide variety of issues in the Notice. Frontier will confine its comments to the Commission's proposal to eliminate the

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<sup>1</sup> *Rules and Policies on Foreign Participation in the U.S. Telecommunications Market*, IB Dkt. 97-142, Order and Notice of Proposed Rulemaking, FCC 97-195 (June 4, 1997) ("Notice").

<sup>2</sup> The United States -- and selected other countries, notably the United Kingdom, Canada, New Zealand, Denmark and Sweden -- have already substantially opened their markets to foreign participation.

equivalency test for interconnected private line -- or international simple resale ("ISR") -- authorizations.<sup>3</sup>

### Argument

#### **THE COMMISSION SHOULD LIBERALIZE THE STANDARD FOR GRANT OF SECTION 214 AUTHORIZATIONS FOR INTERNATIONAL SIMPLE RESALE.**

Currently, the Commission applies an equivalency test to applications seeking ISR authority -- that is, the petitioner must demonstrate that the country at the foreign end of the private line offers resale opportunities equivalent to those offered under United States law.<sup>4</sup> The Commission adopted its equivalency test -- and its corresponding equivalent competitive opportunities ("ECO") test<sup>5</sup> -- in part to prevent "one-way bypass" of the accounting rate system.<sup>6</sup>

With respect to WTO member countries, the Agreement has substantially ameliorated those concerns. As the Commission observes:

U.S. carriers will have the opportunity to send U.S. outbound switched traffic over private lines to 52 countries, which represent approximately 90 percent of total telecommunications revenues of WTO Member countries. Moreover, by opening these foreign markets to competition in international

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<sup>3</sup> *Id.*, ¶¶ 48-59.

<sup>4</sup> See *Regulation of International Accounting Rates*, CC Dkt. 90-337 (Phase II), First Report and Order, 7 FCC Rcd. 559 (1991); Order on Reconsideration and Third Further Notice of Proposed Rulemaking, 7 FCC Rcd. 7927 (1992); Third Report and Order and Order on Reconsideration, 11 FCC Rcd. 12,498 (1996).

<sup>5</sup> See *Market Entry and Regulation of Foreign Affiliated Entities*, IB Dkt. 95-22, Report and Order, 11 FCC Rcd. 3873 (1995) ("Foreign Carrier Entry Order").

<sup>6</sup> Notice, ¶ 49.

services, the WTO Basic Telecom Agreement will exert considerable pressure for reform of the international accounting rate system. The competitive pressures should also lead to low prices and greater alternatives for terminated U.S. international traffic.<sup>7</sup>

On this basis, the Commission should adopt its proposal to liberalize the grant of section 214 ISR authorizations to WTO member countries.

The Commission, however, should go one step further. It should abandon the equivalency (or ECO) test for United States carriers for ISR authorization to non-member countries as well. The signatories to the Agreement represent over "95 percent of the global market for basic telecommunications services."<sup>8</sup> Because the Commission has also proposed to liberalize the grant of ISR authority to member countries,<sup>9</sup> the one-way bypass concern now applies to only 5% of all international traffic. While the Commission has correctly expressed concern that one-way bypass could exacerbate the nation's net settlements deficit,<sup>10</sup> this is now a small and relatively short term concern. The conclusion of the Agreement has fundamentally altered the landscape, such that the Commission should revisit the equivalency test for ISR authorization to non-member countries.

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<sup>7</sup> *Id.*, ¶ 50.

<sup>8</sup> *Id.*, ¶ 1.

<sup>9</sup> *Id.*, ¶ 52.

<sup>10</sup> See e.g., *Regulation of International Accounting Rates*, 7 FCC Rcd. 559, 561 (1990); *ACC Global Corp.* 9 FCC Rcd. 6240, 6242-43 (1994); *Market Entry and Regulation of Foreign-Affiliated Entities*, 11 FCC Rcd. 3873, 3924 (1995).

Moreover, the argument for liberalizing ISR authority to non-member countries is even more compelling than it is with respect to member countries. Signatories to the Agreement have committed to opening their markets to competition. As a natural consequence of such competition, the Commission may expect that the costs to terminate traffic to such countries will continue to fall. The same cannot be said with respect to non-signatories. Those countries have not committed to market reforms and may be expected to attempt to keep settlement rates artificially high.

The Commission should, therefore, take steps to encourage reductions in the cost to terminate traffic to such countries. It may best do so by routinely granting ISR authority with respect to non-member countries. ISR is a powerful tool for reducing costs to terminate traffic to and from other countries, and for forcing downward pressure on settlements rates. As such, it permits carriers to offer lower rates to consumers.<sup>11</sup>

If the Commission adopts Frontier's proposal, expanded ISR authority would put pressure on settlement rates where such pressure is needed most. To the extent that settlement rates of non-member countries are forced closer to cost, this would relieve pressure on the United States' settlements deficit. Expanded ISR authority would be an effective way to achieve that result.


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<sup>11</sup> For this reason, the Commission should not adopt its private line benchmarks proposal. See *International Settlement Rates*, IB Dkt. 96-261, Public Notice (June 4, 1997).

**Conclusion**

For the foregoing reasons, the Commission should act upon the ISR proposal contained in the Notice in the manner suggested herein.

Respectfully submitted,

  
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Michael J. Shortley, III

Attorney for Frontier Corporation

180 South Clinton Avenue  
Rochester, New York 14646  
(716) 777-1028

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